The Survivor Benefit Plan (SBP)

Retirement Brief

GOAL

CHANGE.... **MISINFORMATION**

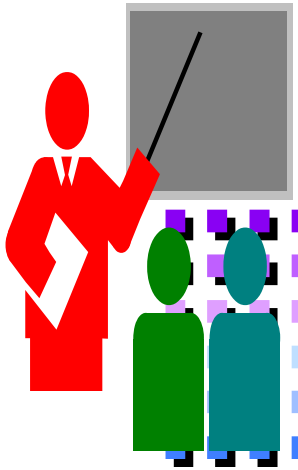
BY

MISINFORMED **MARINES**

INTO..... **INFORMATION**

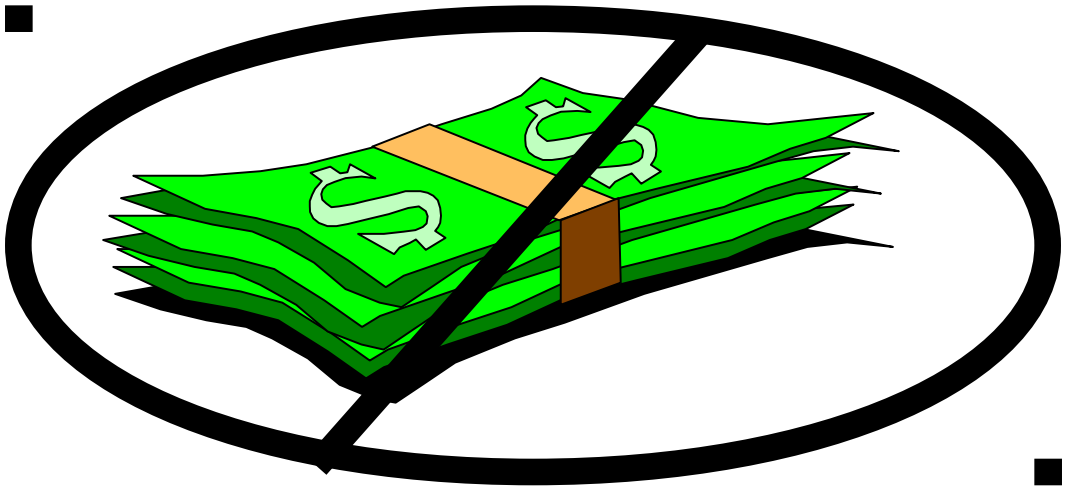
BY

INFORMED **MARINES**

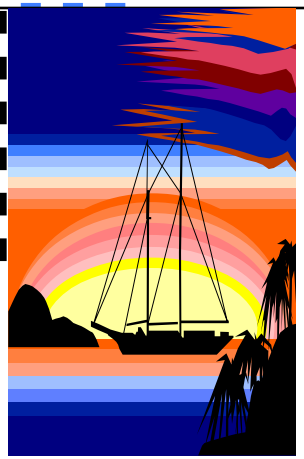


RETIRED PAY

STOPS



WHEN THE RETIREE DIES!



Average Life Expectancy

White Females	80
White Males	73
All Other Females	76
All Other Males	68

Probability of Spouse Outliving Mem

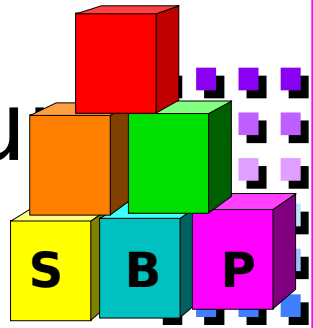
Male, Enlisted AGE:	Spouse	Probability of spouse outliving member:
38	36 / 38	66% / 61%
42	40 / 45	66% / 54%
45	40 / 42	72% / 68%

What Is SBP?

- Enacted by Congress in 1972
- Sole means for retiree to continue a portion of retired pay to survivors
- All service members covered while on active duty for FREE!
- Joint decision at retirement -- gov't begins to share cost
- SBP provides:
  - annuity of 55% (pre-62) & 35% (post-62)--flows from "base amount"

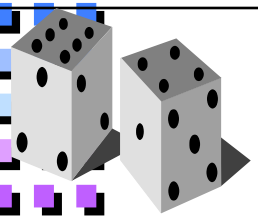
SBP's Intent

- To provide a benefit when Social Security is not yet payable;
- To supplement Social Security when it is payable; and
- To provide a plan to build u



Why Law Requires Spouse Be Informed?

- Spouse **automatically** covered at the highest level when the member completes 20 years active duty at **NO COST**
- Member & spouse decide whether or not to continue full coverage into retirement
- Spouse concurrence **REQUIRED** in any election that terminates or decreases the active duty coverage
- Law requires both member and spouse be fully informed of the options and effects of the SBP
  - So member can make an informed SBP decision
  - So spouse understands implications of member's decision



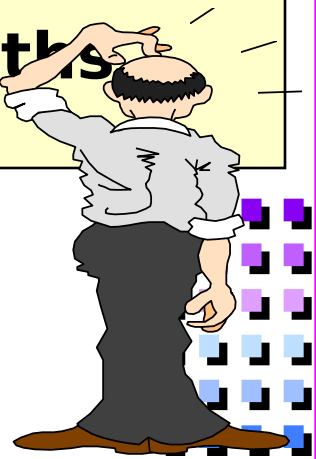
Are You Risk Averse?

Weigh:	***Against:***
Higher risk of leaving your survivor with insufficient income to pay*	Smaller risk that your loved ones may not get back every cent

***Note: On average, total SBP costs are returned in**

About Elections

- Must be made ***before*** retirement
- Certain elections need concurrence
- Generally irrevocable
  -- (however, may be cancelled with spouse concurrence between months 25-36 following retirement)

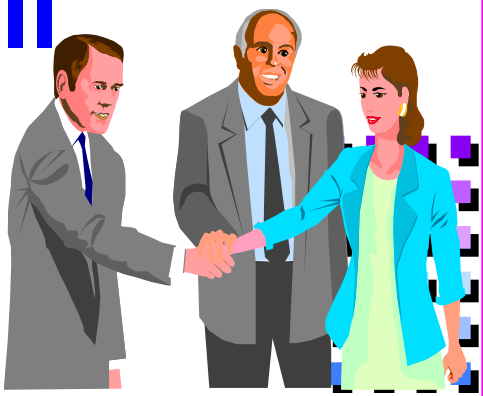


A "JOINT" Decision For Married Marines Who . . . .

-- Decline coverage

-- Cover less than full retired pay

-- Elect "child only"



New Termination Feature

- Can terminate after 2 years of retirement
- One-time, 1 year window between 25th

  and 36th mo. after start of retired pay
- Spouse concurrence
- Barred from future enrollment
- No refund of past premiums
- Why the law changed?

At two year mark, ask yourself:

1) Is my retired pay still a major part of my family's security?

2) Have I adjusted my lifestyle to incorporate the cost of SBP?

- If **YES**, let your participation ride.

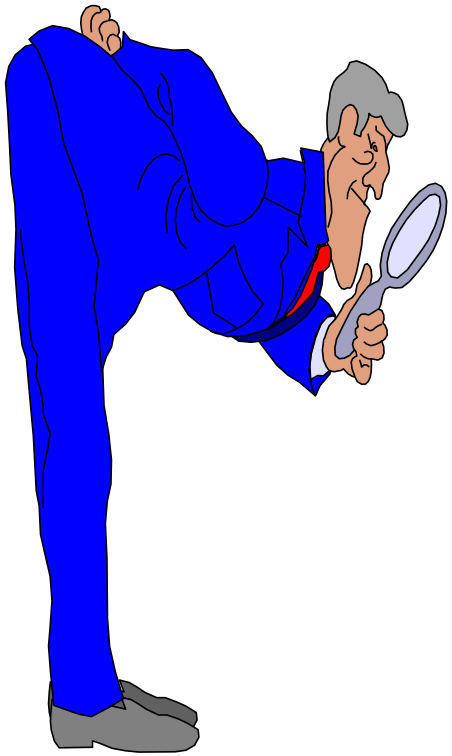
- If **NO**, discuss termination with your spouse, whose concurrence you need, and take action to disenroll.

** **In any event, we recommend you sit down with an SBP Counselor or call (800) 336-4649.**

What Is A Base Amount?

- Base amount is the amount that determines:
  - the monthly cost to the member and
  - the annuity paid to the survivor

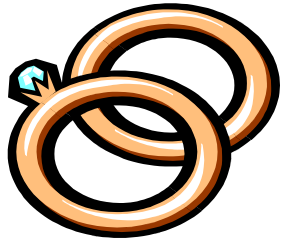
- Retiree selects the base amount:
  - Highest -- full gross retired pay
  - Lowest -- $300 by law
  - may choose any amount between



Six Election Options

- Spouse Only
- Spouse & Child(ren)
- Child(ren) Only
- Former Spouse Only
- FS & Child(ren)
- Insurable Interest

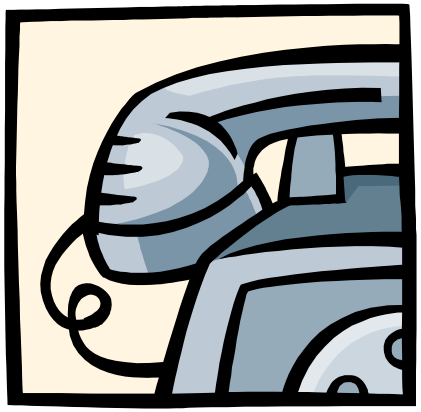
Spouse Option



- Provides annuity of 55% (pre-62) & 35% (post-62) -- flows from “base amount”
- Increased by annual COLA
- Annuity paid forever (unless remarriage occurs pre-55); cannot be outlived
- If pre-55 remarriage ends, annuity is reinstated
- Premiums suspended in case of divorce or death of spouse

Spouse Option (cont'd)

- If member remarries, can cover new spouse or choose no coverage before 1st anniversary of marriage
- Unmarried members at retirement may cover future spouse - MUST notify DFAS-CL before 1st anniversary of marriage
- Annuity is taxable



Spouse & Child(ren) Option

- Spouse = primary beneficiary
- Children receive annuity ***only if*** spouse can't (pre-55 remarriage or death) ***and*** they are still eligible
- Child cost is based on ages of member, spouse & youngest child
- Cost of child coverage - very low
- Child cost stops when no eligible children remain
- Children receive annuity in equal shares

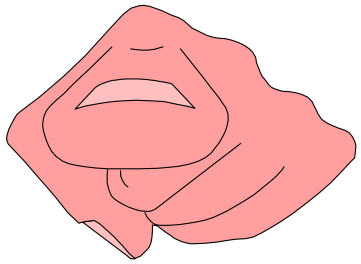
Eligible Child(ren)

- Single and under age 18, or single and full-time student under 22, or single and incapable of self-support
- Children incapable of self-support because of physical or mental disability = **Eligible For Life!**
  - Disability must be incurred prior to age 18 (or 22 if full-time student)
  - Annuity payments to disabled child aren't reduced at age 62
- Marriage at any age permanently terminates child's eligibility

"Child(ren) Only" Option

- Includes eligible: natural, illegitimate, adopted, step-, grand-, and foster children
- Cost based on ages of member & youngest child
- All eligible children covered at **one cost**
- **Cost stops** when no eligible children remain
- Cheaper than "spouse" due to finite benefit
- Costlier option than child portion when with spouse since child is primary beneficiary
- Annuity divided equally among all eligible

Advice-- Seriously Consider Child Coverage!



Q: Why bother to cover my 21-year old son who graduates from college soon?

A: Because....

- ✔ incapacitation may occur while still eligible
- ✔ “closing” the child category when there are eligible children closes it forever
- ✔ family complete? perhaps a step-, grand-, foster- or natural child is in your future

"Insurable Interest" Option

- **Who Can Elect:** Unmarried Marines with one or no dependent child
- **Eligible Beneficiaries:** Relative more closely related than cousin; or business associate w/financial interest in Marine (proof needed)
- **Base Amount:** Must be full retired pay
- **Cost:** 10% + 5% for each full 5 yrs younger beneficiary is than Marine (for life)
- **Benefit:** 55% of retired pay ***less*** SBP cost for Life.
- **Most advantageous:** Death imminent

$ "Insurable Interest" $

Example

Retiree Age: 45

Beneficiary Age: 32

Retired Pay: $1000

Cost: 20% of $1000 = $200

(i.e. 10% + 5% for each full 5 yrs younger)

Annuity: $440

(i.e. $1000 - $200 = $800 X 55%)

* Note: may cancel coverage at any time

Former Spouse "Particulars"

- FS coverage can be:

  - purely voluntary

  - incorporated into a written agreement

  - court-ordered

- Condition: FS must have been the formerly-covered spouse if divorce occurs after retirement

- Action Required Within 1 Year:

  - By Retiree: provide DFAS-CL divorce decree **plus**

  written request to change coverage

  - By FS: provide DFAS-CL divorce decree **plus** ***written request*** for a deemed election

Former Spouse (cont'd)

- Precludes "spouse" coverage **forever***-- even if FS becomes ineligible through remarriage pre-55
- Payments are suspended when/if FS is ineligible but resume when/if eligibility is reinstated
- FS & Children: includes **only** children of the marriage to the FS (no subsequent children)

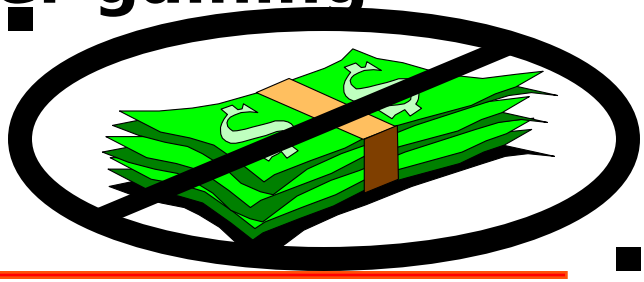
***FS coverage can be changed if court order is amended or vacated by FS's death.**

Supplemental SBP (SSBP)

- Increases the after-62 basic 35% benefit to 40, 45, 50 or 55%
- Must cover full pay as base amount
- Features:
  - → **voluntary (can't be court-ordered)**
  - → **concurrence not needed**
  - → **not government-subsidized**
  - → **cost is age-based**
- SSBP not part of death-on-active-duty coverage for AD members
- A "no-brainer" for uninsurable members

Decline Coverage

- Upon member's death, no payments made to anyone
- Beneficiaries excluded at retirement can not be covered in the future unless there is an open enrollment
  - If member has no eligible spouse or child at retirement, coverage must be elected within 1st year after gaining beneficiary



Automatic Coverage Provision

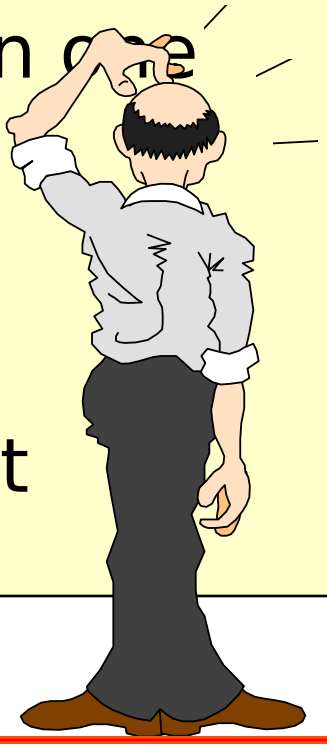
- Spouse concurrence required when married member elects:
  - **No spouse coverage**
  - **Reduced spouse coverage**
  - **Child only coverage**
  - **Reduced spouse and child coverage**
  - **To decline coverage**
- Concurrence valid only if dated after member's election but before retirement
- DFAS-CL establishes **maximum coverage** if required concurrence not obtained/DD 2656 not received prior to retirement

No Beneficiary at Retirement?

-- Decision whether or not to enroll new family members MUST be made within one year of gaining them

-- New spouse becomes eligible at 1-yr anniversary

(No costs incurred until then)



How much does SBP cost?

Spouse Only: 6.5% of base amount selected (in general)

Examples:

Base Amount:	$ 520	$1200	$2000
Cost:	$ 13	$ 78	$ 130
Annuity (55%):	$ 286	$ 660	$ 1100

Lower of either:

(1) 6.5 percent of the designated base amount

OR

(2) if the elected base amount is less than **$1,172** as of 1 Jan 02, take 2.5 percent of the first $547* of the elected base amount plus 10 percent of the remaining base amount (see Examples).

Cost Examples

Method (1) Spouse coverage

Base amount: $1,500 x by 6.5 percent (.065) = $97.50/month

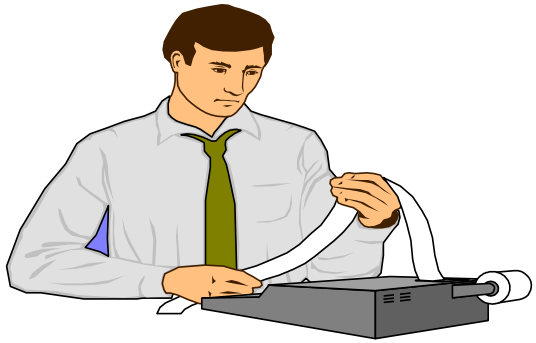
OR

Method (2) Spouse coverage

Base amount: $900

1. Take first $547 and multiply by 2.5 percent (.025) = $13.67
2. Take remainder $353 and multiply by 10 percent (.10) = $35.30
3. Add $13.67 + $35.30 = $48.97/month

Whichever is most beneficial. As of 1 Jan 02, if the base amount is $1,172 or more, the cost will be less under method (1) above and if the base amount is less than $1,172, the cost will be less under method (2) above.



"Threshold" Amount

Portion of base amount which costs 2.5%

- Increases by same % as AD COLA
- $547 (eff. 1 Jan 02)
- Instead of a $300 base, cover $547 at 2.5%

	Base Annuity	Cost	
Threshold	$547	$13.67	$301
Minimum	$300	$ 7.50	$165

SBP Cost

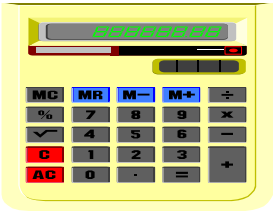
Children Only: based on age of member and youngest child.

Less expensive than spouse coverage.

Spouse and children: Spouse cost plus additional amount for the for the children (usually minute). Additional child cost is based on age of member, spouse and youngest child.

- A cost computation can be obtained by contacting an SBP counselor or visiting Counselor's Hooch in the Retired Activities website. Costs and annuities are subject to COLAs.

SBP's Real Cost



	NO SBP	SBP
Retired Pay	$2,000	$2,000
SBP Cost	$ 0	$ 130
Taxable Pay	$2,000	$1,870
Tax Paid (28%)	$ **560**	$ **524**
Annuity	$ 0	$1,100 (pre-62)
		$ 700 (post-62)

*** This non-participant actual "pays" $36/mo in the form of**

Can I Tailor SBP To Meet My Needs? Yes….Think "Base Amount"

Challenge: What base amount should I cover to meet our needs?

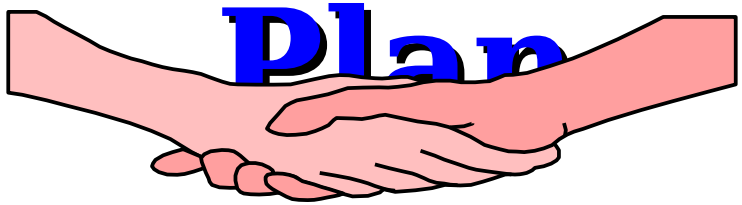
Solution: Divide the goal amount by

Examples:

$800 annuity -- choose $1455 as base

$400 annuity -- choose $727 as base

Government-Subsidized Plan



Percentage of Total Cost Paid

Officers	60%	Gov't 40%
Enlisted	52%	Gov't 48%
Overall	56%	Gov't 44%

Miscellaneous Provisions

- **"30-Year Paid-Up Provision" (Eff. 1 Oct 2008)**
  - No further cost (but annuity payable) **after** 30 years of paying premium **AND** reaching age 70

- **Non-Resident Alien Annuitant Tax Liability**
  - Flat 30% income tax reduction
  - Status of forces agreement (SOFA) may affect tax liability

Miscellaneous Provisions

- **Future Civil Service (CS) retirement**
  - If **combining** military and CS time, waiving military retired pay, retiree may retain only **one** annuity program (either military or CS, not both)
  - If **not** combining military and civilian time, may participate in **both** military and CS survivor annuities plans (survivor can receive both annuities)

Unbeatable Features

- Government subsidized plan
- Tax-free premiums
- Inflation-adjusted (COLAs)
- Flexible: can terminate between years 2 & 3
- “Paid up” after 30 years premiums + age 70
- Cannot outlive annuity
- Age, health, smoking, sex, lifestyle -- not considered
- Cost does not include extra fees
- Premiums suspended if NO beneficiary
- Can only be changed by Congress
- Age of spouse not a factor in member’s costs
- Income safety net; peace of mind

Indemnity Compensation (DIC)

- DIC is a **tax-free** monthly payment awarded by the VA **if** member's death ruled service-connected by the VA and is paid to:
  - Unmarried surviving spouse
  - Eligible children
- DIC reduces surviving spouse's SBP annuity dollar-for-dollar
  - SBP premiums refunded for portion of the SBP annuity not received

How DIC & SBP Relate

- DIC is suspended if spouse remarries at any age
  - Full SBP may be reestablished if remarriage occurs after spouse turns age 55
  - Premium refund (if any) must be repaid by spouse
- DIC reinstated if remarriage ends
  - Reduces SBP again dollar-for-dollar
  - No second premium refund paid to spouse
- SSBP annuity not affected or offset by DIC
  - Paid regardless of DIC reduction when spouse is age 62 or older
- Children's SBP **not** affected or reduced by DIC

Authorized Changes After Retirement

- Members with no spouse or child at retirement may elect SBP **within one year** after gaining either/both
  - Spouse not eligible to receive annuity until
    - » First anniversary of marriage, or
    - » Upon birth of a child if before the 1st anniversary
    - » Costs begin on 1st day of the month after eligibility is established
  - Child
    - » Eligible for annuity begins on date DFAS-CL receives election request.
    - » Costs begin the 1st day of the following month
- DFAS-CL must be notified **within one year** of acquiring family member

More Authorized Changes

- Cost & coverage suspended when beneficiary loses eligibility
  - E.g.- divorce, child's marriage, or death of beneficiary
- Suspended cost and coverage reestablished
  - For new spouse following eligibility status
  - Unless member requests not to resume spouse coverage before that date
- Additional child(ren) acquired after retirement are automatically covered if child coverage previously elected
  - No change in costs

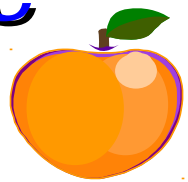
More Authorized Changes

- Retirees may withdraw from SBP if:
  - Rated 100% disabled by the VA for-
    - -- 5 consecutive years following retirement
    - -- 10 consecutive years if 100% disability rating was not received immediately following retirement
  - Request is processed by DFAS-CL
  - Rating **must** be verified by the VA
  - Spouse **must** agree in writing to withdrawal
- All premiums including SSBP premiums are terminated
- Surviving spouse receives refund of premiums following the member's death

CONSIDER....

"No other product in our economy that is purchased by so many people for so much money is bought with so little understanding of its actual or comparative value."

4 Main Points When Comparing SBP to Life Insurance



- It takes a **surprising** amount of insurance to do for the spouse what SBP will (based on averages).
- It will take **a lot more** insurance if the spouse outlives the retiree by the longest period of time.
- The amount of insurance needed over time **rises due to inflation**.
- Even though insurance may appear to be an inexpensive “alternative” at retirement, it’s **harder to obtain & increasingly expensive** as you age.

Life Insurance Proceeds-- How Long Do They Last?

(Ret Pay = $2000/mo; Life Insurance = $100K; Member dies in 2001)

Year	Spouse Age	Insurance Proceeds	After-Tax SBP Benefit
2001	40	$100,000	$11,220
2006	45	$ 61,767	$13,007
2011	50	$ 1,445	$15,079
2012	*51*	*$ 0*	*$15,531*
2016	55	$ 0	$17,480
2021	60	$ 0	$20,265
2026	65	$ 0	$14,950
2031	70	$ 0	$17,331

One Young Widow's View

(actual letter)

"....each day I thank my late husband for his taking SBP...it allows me to live with decency and independent of others....the utility bills have not changed with the loss of my husband....minor home repair and car maintenance now must be done by others and it becomes a major burden.... the loss of a partner impacts on the objectivity of spending money, especially for major items....the life insurance was only a supplement to SBP, because $100,000 or

SBP Endorsement

“We endorse SBP because we feel it is in the best interest of the retiree. We have examined SBP very carefully and concluded that SBP does what it is designed to do better -- and with less risk -- than any alternative we, or any other company could devise.”

(BG Robert F. McDermott, USAF Ret
Former Chairman, USAA)

DoD Actuary's Advice to Retiring Males

Men can't go far wrong taking the maximum SBP. The situations for them where the threshold amount of SBP is not worth it are rare. The older you are, the more you want SBP. The younger your spouse is, the more you want SBP. The worse your health is, the more you want SBP.

(Advice based on expected values and numerous statistics)

DoD Actuary's Advice to Retiring Females

"....I cannot, in good conscience, advise ***all*** female retirees that it is always a good financial decision to take maximum SBP. If you are approximately the same age as your husband, taking SBP is a relatively better choice than if you are 6 or 8 years younger. However, I think female retirees would be very foolish not to take the time and effort to find out what the valuation software advises in their particular case."

HQMC's Advice To All Retiring Marines

"Do not forfeit SBP without having full knowledge of what you are giving up."

(Retired Activities Section, HQMC)

Member's Responsibilities

- At least 60 days before retirement
  - Complete DD Form 2656 containing critical pay data
  - Obtain spouse's concurrence (if required)
  - Maximum SBP coverage established if valid election not received before retirement date
- After retirement promptly notify DFAS-CL promptly of changes:
  - In bank or correspondence address
  - In marital status or family members that affect existing or desired SBP coverage

Complete DD Form 2656

Sections I to VIII: Payment data for retired pay

Section IX: SBP Election

- Beneficiary Categories
- Level of Coverage

Section XI: SBP Spouse Concurrence

- Required when member is married & elects child(ren) only coverage, does not elect full spouse coverage, or declines coverage. ***Requires witness signature.***

Section XII: Certification

- Member's signature. ***Requires witness signature.***

For More SBP Information….

Log on to:

www.usmc.mil

Click on: *Career*, *Retired*, *SBP*

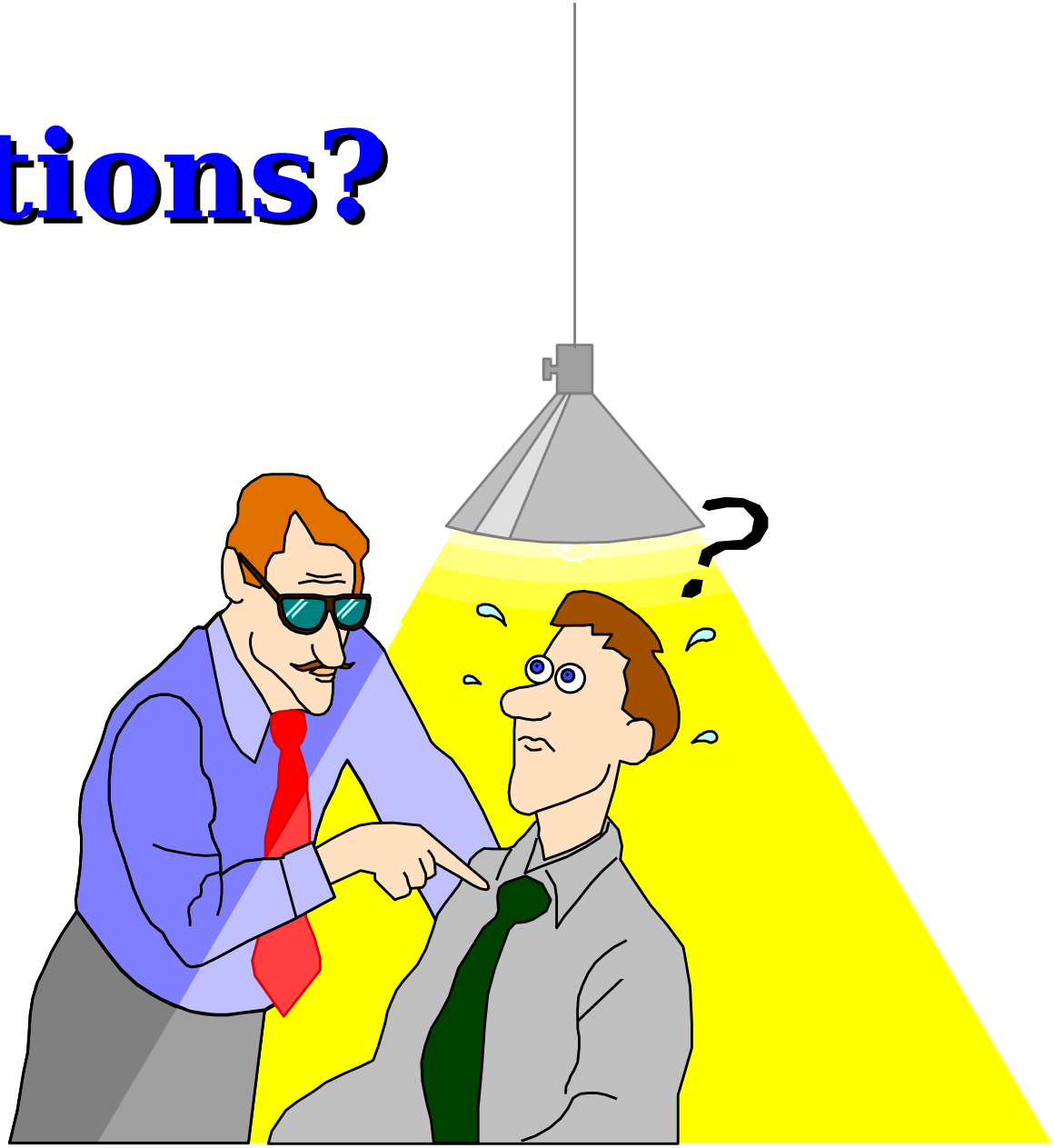
POC:

Mr. HicksComm: (703) 784- 9310/11/12

Capt Schrader DSN: 278-XXXX

Toll free: (800) 336-4649

Questions?



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